KangaNews AWARDS 2011

KANGAROO SUPRANATIONAL, SOVEREIGN AND AGENCY BOND DEAL OF THE YEAR

International Finance Corporation

A$1.25 BILLION 5% AUGUST 2016
A$250 MILLION AUGUST 2016 FRN
JOINT LEAD MANAGERS:
ANZ, COMMONWEALTH BANK OF AUSTRALIA, WESTPAC INSTITUTIONAL BANK

The two-tranche five-year fixed and floating rate note (FRN) deal issued by International Finance Corporation (IFC) on July 27 was the biggest Kangaroo deal of 2011. Its recognition as deal of the year in its sector achieved some of the more unequivocal voting of all the *KangaNews* awards for 2011: investors as well as intermediaries and IFC's peers were virtually unanimous in their view that this was the year's headline deal from the supranational, sovereign and agency (SSA) sector.

John Borthwick, deputy treasurer and head of funding at IFC in Washington, is delighted with the recognition. "I'm happy that the market has rewarded IFC for our consistent strategy in the Kangaroo market," he says. "As one of the smaller SSA borrowers we can't issue as much volume as some of our peers, but we have been consistently in the market since our inaugural deal in 2007. And each time we have brought a transaction we have focused on building our curve and enhancing the perception of liquidity by bringing the biggest-volume deals possible."

The award-winning deal hit the sweet spot in terms of timing, maturity and issuer: it was launched just after President Obama's speech aimed at clarifying the US debt ceiling issue, and just before the extreme volatility in both the US and Europe that plagued global capital markets in the second half of the year. IFC's position as the only supranational with fully paid-in capital also makes it less prone to concerns about sovereign risk infecting the SSA sector.

As James Hammermaster, senior manager fixed income origination at Commonwealth Bank of Australia in London, says: "This deal had all the hallmarks – from timing, pricing and tenor – which appealed to a diverse cross-section of the traditional AUD high-grade investor base."

According to Borthwick, offering a same-maturity floating rate note (FRN) tranche at the same time as the benchmark fixed-rate tranche is testament to the fact that IFC works to meet investor demand. "We did the same in December 2010 and this time around we had a similar experience. We had a big lead order for the FRN from Japan and we decided that if we could build it into a decent size we would be prepared to issue in this format," he explains.

In terms of the A$1.25 billion size of the fixed rate deal, Borthwick says IFC was astonished with the end result. "We were initially looking at a A$300 million deal; A$500 million would have been good, while A$750 million would be outstanding," he says. "The size exceeded all our expectations and I think this also validates our Kangaroo issuance strategy. We have always been careful not to over-expose investors to our name, so when we come to market we can do bigger deals and be responsive to demand when it materialises."

IFC's lead managers also stress the strong book, which contained a diverse mix of investors. Says Apoorva Tandon, director, syndicate at ANZ in Sydney: "The deal was oversubscribed, with over 40 participating accounts. The investors included bank liquidity books, domestic asset managers, Japanese asset managers and central bank buyers. It was a one of highest-quality order books seen in some time."

Mark Goddard, executive director and head of debt securities at Westpac Institutional Bank in Sydney, adds: "The deal was placed roughly 50/50 onshore/offshore and the involvement of a diverse mix of investors created a strong book that supported the large deal size."

With regard to the choice of lead managers, Borthwick says the transaction also proves that issuers no longer have to have international houses to attract offshore distribution. "When it comes time to choose lead managers, we look at houses we are close to, that have staying power, and that will be there to make a market down the road," he reveals.

Relative to other supranationals, IFC was a relatively late entrant into the Kangaroo market – it waited until it felt the Australian dollar would offer consistent opportunities for benchmark-sized issuance before pricing its first deal, in 2008. Borthwick says that patience has paid off, and the supranational hopes to continue with its strategy of maintaining a consistent presence in the market. "Australia is a market that offers us cost-effective duration – five years and longer – and size. It has been a very important part of our funding strategy. By the end of 2011 AUD was the second most important market for IFC, after the USD global market." •